



## Coast Guard HR Flag Voice 150

### PLANNING FOR YOUR FUTURE -- THE TIME IS NOW (PART 1)

**The purpose of this series of five Flag Voices is to discuss the various factors that go into planning for your financial goals and how those factors can directly influence your financial plan.** We all have financial goals that we set for ourselves and our family during our lifetime, goals such as a new car, big vacation, new house, college education, or retirement. However many people don't know how to effectively develop a plan to reach those various financial goals and therefore fail to meet them. The earlier you start the better. Especially for mid-career service members, time will soon be working against you - so your time is now.

**Before I begin, what is the reality? A survey of airmen by the U.S. Air Force was aimed at determining the scope and depth of airman financial hardship.** They concluded:

Prevalence of financial mismanagement is high.

Extensive use of long-term debt (excluding home and car loans).

Non-reimbursed expenses for housing, PCS costs and military-related separations increase financial hardship.

Financial counseling services used only minimally.

Spouse unemployment is above the national average.

It is not likely, from what I hear from the field and observe with Coast Guard Mutual Assistance needs, that our Coast Guard members are much different in the financial challenges they face. Clearly the third finding is an organizational issue we have been working on for some time and will continue to keep as our highest priority; much effort ongoing with the Department of Defense.

### Before Building Your Investment Plan

***Before you can start planning for the future, you need to ensure that your current financial picture is stable and ready for any contingencies that could jeopardize your financial situation.*** This includes 1) having a source of emergency funds, 2) insuring yourself against disaster and 3) controlling your consumer debt.

### Importance of an Emergency fund

***Before putting money toward your investment goal, you first need to create an emergency fund.*** The

emergency fund is there to ensure that you have enough cash on hand to handle any unforeseen expenses that may occur in the future. Experts advise everyone to have approximately 3 to 6 months worth of current living expenses saved up in very safe, liquid, short-term investment. Because of the stability of military employment and the reliability of military pay and benefits, a 2-3 month reserve is probably adequate for active duty members.

## **Protect Yourself with Insurance**

*Without the proper insurance in place, an unfortunate accident could result in financial devastation for you and your family.* Insurance is designed to provide protection from catastrophic loss. Types of insurance that are important to have are: health, disability, auto, property & liability, and life. The continuing increases to the already high cost of health care makes a good health insurance plan essential to your financial security. Active Military members and their families and retirees and their survivors have a big advantage here due to the Military Health Care System. Please refer to my other Flag Voices about recent major improvements, including TRICARE Prime Remote for active duty family members.

Disability insurance is designed to protect one of your most valuable assets - your ability to earn income. Even though protecting your future income stream is very important, many people simply overlook this need for protection. Statistically, the odds of becoming disabled for 90 days or longer are much greater than dying during one's working years. Although military and VA programs protect the active duty member from disability, protecting the non-active duty spouse may be very important.

Owning property (e.g. auto, house, boat, furniture, etc.) or operating a car can be a source of financial risk, both for loss of or damage to the property but also for the financial liability that may be yours as a result of an accident. Life insurance can protect the family's standard of living by providing the necessary money to pay last illness expenses, personal debts, replace lost income, and other needs in the event of an untimely death. In addition, if an untimely death does not occur, permanent life insurance can then be looked at as a long term tax-deferred savings plan that can be used to supplement some of your savings goals after you no longer need the life insurance. Active duty military also need to realize that there are a significant amount of benefits that come to their families if they should die on active duty -- survivor benefits that I will cover in a future Flag Voice.

Two general types of life insurance are available to meet your family's needs: Term and Permanent. Term life insurance provides death benefit coverage for a specified period of time at a low cost. Some term insurance will stay level for the specified period of time while some will decrease. Permanent life insurance provides coverage for your entire life, not just a limited period of time, while also providing a savings element known as the plan's cash value. The cash value is available to the owner of the plan during his/her life time through policy loans, cash surrender values, or from other possible withdrawal features. Premiums for permanent life insurance will be higher than term insurance premiums and will vary depending on the type of plan you elect. Assessing which life insurance plan or combination of plans is best for your needs may be done by going to the life insurance tutorials and calculators located on various websites and/or speaking to an insurance professional.

Note that all active duty members have term insurance, unless otherwise declined or elected for a reduced amount, called SGLI. This automatic coverage increased to \$250K from \$200K effective 01 April 2001. This is a significant benefit.

## **Value of Controlling Consumer Debt**

***Managing your personal debt will prove to be a very critical step in helping you reach your goals and establishing overall financial security.*** If you find yourself deep in debt, it can be very difficult to get out. The first step in managing your debt would be to stop accruing it. Keep a credit card for convenience, but pay it off each month. If you can't control your credit card spending, cut up your card and start paying cash.

The next step is to reduce your current debt. If you have the ability, consolidate all your loans into one loan that will have a lower interest rate, such as with a home equity loan or some other type of loan. If you are not able to consolidate your debt, you can pay off the highest-interest debts first, which would save you the most money; or you could pay off the lowest balances first. Paying off a loan balance that was charging you 19% can be compared to generating 19% return because of the fact that you have saved that money which would have been lost to your debt payment. As the old adage goes "a penny saved is a penny earned."

But remember, our goal is to manage and reduce our debt so that we can use the savings for other goals. If you payoff or reduce your loan interest but then spend the savings, you are still not getting ahead.

Next: Steps to developing your plan.

Regards, FL Ames

Reprinted with permission from the Navy Mutual Aid Association (NMAA). Author: CAPT Michael McHugh, USN Retired

---

[Flag Voice Contents](#)

This page is maintained by [HR Webmaster \(CG-1A\)](#)